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MINUTES
ECONOMIC POLICY COUNCIL

March 7, 1986
10:00 a.m.
Roosevelt Room

Attendees: Messrs. Baker, Lyng, Baldrige, Miller, Yeutter, Sprinkel, Whitehead, Darman, Whitfield, Burnley, Kingon, McAllister, Driggs, Hoffman, McMinn, Naylor, Rodman, and Stucky; Ms. Lawrence, and Ms. Risque.

1. Canadian Trade Issues

Ambassador Yeutter provided an update on the status of the bilateral trade issues with Canada. He stated that lumber discussions, which are critical to Congressional approval of free trade negotiations, appear to be headed toward success with regard to our major objectives, with the important exception of stumpage. He reported that the Canadians are expected to introduce pharmaceutical legislation that satisfactorily addresses our concerns. He noted, however, that the Canadian Government recently granted approval for a generic drug, which harms Phizer Corporation.

Ambassador Yeutter stated that the Canadians have promised a resolution of the Gulf and Western case before Prime Minister Mulroney arrives on March 18. He stated that there are problems with U.S. access to Canada's alcoholic beverage market. He noted that was a potential Section 301 case which will be discussed at the Economic Policy Council in the coming weeks. He also stated that consultations with Canada regarding uranium are scheduled for the following week.

Several members of the Council expressed a sense that the Canadians were progressing on several issues. Mr. Darman noted that improving trade relations while not addressing the problems in foreign direct investment would be ineffective.

Mr. Whitehead cautioned against establishing difficult deadlines for resolution of the outstanding issues, including timber. Mr. Burnley noted that there are also some difficulties with Canada regarding commercial aviation.

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2. Farmers Home Administration (FmHA) Lending

Deputy Undersecretary Lawrence stated that fourteen states have exhausted their direct loan obligation allocations. She stated that if FmHA's authority were pooled nationally, it would provide roughly thirty-two days more credit. She pointed out, however, that pooling nationally would be unfair to northern states who demand credit later in the year than do the southern states.

Ms. Lawrence explained that there is some uncertainty with regard to total demand for FmHA credit. She stated that demand is down twenty percent from this time last year, but explained that may be due to: the lateness of the farm bill; the $4 billion in advanced deficiency payments; or the tougher cash-flow requirements. She stated that demand for loan guarantees is up.

Ms. Lawrence reviewed the options developed for the Council's consideration by the Working Group on Federal Credit Policy;

1. Accept the current program authorization and direct those borrowers eligible under the law to the guarantee program.

2. Transfer $700 million from the emergency loan program to the direct operating loan program and $50 million from the guaranteed business and industry program to guaranteed operating loans.

3. Transfer up to 25 percent of the guaranteed loan program ($430 million) to the direct loan program, as specifically allowed in the Farm Bill.

She explained that option 2 would not increase Federal spending, because money would be transferred from one program to another. She explained that FmHA has only obligated $46 million of the $1.3 billion emergency loan program, so there appears to be sufficient resources. She noted that if demand increased dramatically, option 2 would not solve the problem.

Mr. Naylor explained that under the Gramm-Rudman Act, Congress has capped FmHA direct loan obligations. He stated that demand will continue to exceed the supply incoming years and noted that FmHA is pursuing measures to reduce demand for loans.

Several members of the Council expressed concern about the high subsidy provided through the direct loan program. Mr. Naylor explained that FmHA has no discretion about the subsidy.

The Council also discussed the possibility that the Gramm-Rudman Act is being eroded incrementally, particularly through farm legislation, such as the technical amendments and assistance for agricultural banks and the farm credit system.

Decision

The Council unanimously agreed to recommend option 2 to the President.